COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

FIRST SET OF INFORMATION REQUESTS TO COLONIAL GAS COMPANY
D/B/A
KEYSPAN ENERGY DELIVERY NEW ENGLAND

D.T.E. 04-86

Respondent: Ann Leary

Information Request: 1-1

Q. Refer to Att. A of the Company's filing.

(a) Calculate Colonial's return on equity ("ROE") for the twelve months ended December 31, 2004.

(b) Calculate the variance between the Company's allowed ROE for the years 1996 to 2004 and the ROE realized by the Company during these years.

(c) Calculate Colonial's average ROE for the twelve months ended December 31, 2003 and the twelve months ended December 31, 2004.

(d) Provide copies of the relevant pages of Colonial's Annual Return used in the calculation of the Company's 2003 and 2004 ROE.

(e) Based on the Company's response to (a) and (c) above, please provide a detailed analysis (including workpapers, assumptions, etc.) to support the Company's statement that "the Company's earnings continue to warrant approval of an exogenous cost adjustment" (Cover Letter at 2).

A. (a) Financial information for the twelve months ending December 31, 2004 is not yet available. The Company will provide the information as soon as it is available.

(b) Please see Attachment 1-1 (b) detailing the variance between Colonial's average ROE for the years 1996 through 2003 and the ROE of 11.19 percent. The ROE of 11.19 percent was not explicitly approved by the Department because the Company settled its last rate case, Colonial Gas Company, D.P.U. 93-78(1993). In the settlement, the parties agreed that a ROE of 11.19 percent would be used solely for the purpose of calculating (1) the allowance for funds used during construction, (2) carrying costs associated with the unamortized demand side management expenditures, and (3) purchased gas working capital allowance, (4) the remediation adjustment clause value, and (5) any other components of the Cost of Gas Adjustment Clause. D.P.U.93-78, at 4. Therefore, the Company has used the 11.19 percent agreed to in D.P.U. 93-78 to calculate the variance.

(c) Colonial's average ROE for the twelve months ending December 31, 2003 is provided as Attachment 1-1(c) and previously was submitted in the Company's last exogenous cost filing, D.T.E. 03-90. Financial information for the twelve months ending December 31, 2004 is not yet available. The Company will provide the information as soon as it becomes available.

(d) Copies of the relevant pages of Colonial's Annual Return used in the calculation of the Company's 2003 ROE calculation are provided as Attachment 1-1(d). Financial information for period ending December 31, 2004 is not yet available. The Company will provide the information as soon as it is available.

(e) Please see the Attachment 1-1(b) detailing the variance between Colonial's average ROE for the years 1996-2003 and the 11.91 percent used by the settling parties in D.P.U 93-78. The Company will provide the information for the twelve months ending December 31, 2004 as soon as it is available.

The Department's standard for recovery of an exogenous cost as it relates to earnings, the third prong of the three-part standard, is that the Company's earnings independent of recovering the proposed exogenous cost are reasonable. Bay State Gas Company, 03-36 (2004); Colonial Gas Company, D.T.E. 03-90 (2004). The Company's recent ROEs are lower than the ROEs allowed by the Department in recently litigated cases (10.2 percent in KeySpan Energy Delivery New England d/b/a Boston Gas Company, D.T.E. 03-40 (2003); 10.0 percent in Fitchburg Gas and Electric Company, D.T.E. 02-24/25 (2002); 10.5 percent in The Berkshire Gas Company, D.T.E. 01-56 (2002) and, therefore, are reasonable. As noted by the Department in D.T.E. 03-36 at 14, a current ROE lower that the ROE allowed by the Department in establishing just and reasonable rates is prima facie evidence that the third prong of the test for recovery of exogenous cost has been met. In addition, the Department noted that a current ROE "lower than those recently set for other LDCs is important corroboration of reasonableness …." Therefore, the Company continues to warrant approval of an exogenous cost adjustment.